STATE UNIVERSITY CONSTRUCTION FUND

ANNUAL INVESTMENT REPORT

FOR THE PERIOD OF APRIL 1, 2012 THROUGH MARCH 31, 2013

1. Investment Guidelines

See Attachment (A) – “Investment Guidelines”.

2. Amendment to Investment Guidelines

The Investment Guidelines were reviewed and approved by the Trustees on April 16, 2013. See Attachment (B) – “Updates to Investment Guidelines”.

3. Explanation of the Investment Guidelines

All of the State University Construction Fund’s (the Fund) investments are maintained by the Commissioner of Taxation and Finance pursuant to the provisions of Article 8-A of the Education Law. The Fund requires the Commissioner of Taxation and Finance to adhere to their “Investment Policy” and the Office of said commissioner is required to consult with the Fund prior to investing monies of the Fund. The Fund evaluates investment options after reviewing them with the Office of the Commissioner of Taxation and Finance and confirms each investment selection by letter. All investments of the Fund are restricted to the investments authorized by its Investment Guidelines and the Office of the Commissioner of Taxation and Finance is required to provide the Fund with written verification of investments and monthly reconciliations thereof.

The Fund’s Trustees are provided with quarterly investment reports for their review. Further, the Fund is required to engage an independent public accounting firm annually to review its compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules and Regulations of the State of New York.

4. Annual Independent Audit Report

See Attachment (C) – “Independent Accountants’ Report on Investment Compliance”.

5. Investment Income of the Fund

$237,612

6. Fees, Commissions and Charges Paid to Investment Bankers, Etc.

New York State Department of Treasury Custodial Fees - $56,248.
STATE UNIVERSITY CONSTRUCTION FUND
INVESTMENT GUIDELINES

I. INTRODUCTION
a) Section 2925 of the Public Authorities Law requires the Board to adopt by resolution investment
guidelines to apply to the investment of all monies of the State University Construction Fund
(the Fund).

II. OBJECTIVES
a) The primary objectives of the Fund’s investment activities are:
  i. The protection of each investment’s principal;
  ii. To maximize earnings, subject to the safety of investments, on the Fund’s monies that are
      not required for immediate use;
  iii. To conform with all applicable Federal, State and other laws and regulations; and
  iv. To maintain a system of adequate internal controls with an emphasis on the safeguarding
      of assets and accurate recordkeeping of investments.

III. DELEGATION OF INVESTMENT MANAGEMENT
a) The Fund’s General Manager or designee shall be responsible for the Fund’s investments.
b) Pursuant to Section 377 of the NYS Education Law, all investments are to be made for the Fund
   by the Commissioner of Taxation and Finance or his authorized representative.
c) The Department of Taxation and Finance is designated the sole custodian of the Fund’s investments.

IV. INTERNAL CONTROL PROCEDURES
a) The Office of Capital Finance is responsible for establishing and maintaining an internal control
structure to provide reasonable assurance that investments are made in accordance with these
Guidelines and that they are safeguarded against loss from unauthorized use or disposition.
b) The specific internal controls relating to collusion and separation of transaction authority and
recordkeeping is maintained by the following:
  i. The designation of the Department of Taxation and Finance as the sole custodian of the
     Fund’s investments.
  ii. All records and documents relating to investments are independently summarized and
      reported on a periodic basis by the Fund’s Controller’s Office.
  iii. Warrants, including wire transfers, to enable disbursements must contain two signatures
       for authorization.

V. INVESTMENT PROCEDURES
a) The Commissioner of Taxation and Finance will consult with the Fund prior to any change in
investments to evaluate investment options (investment type, term, required collateral, and rate of
return) and the Fund’s cash flow requirements.
b) The Fund will formally confirm each investment selection by letter to the Commissioner of
Taxation and Finance.
c) The Commissioner of Taxation and Finance will provide the Fund with written verification of
each investment transaction and monthly account statements showing all transactions and
investment balances held on behalf of the Fund.
VI. **PERMITTED INVESTMENTS**

a) Pursuant to Section 377 of the Education Law and Section 98-A of the State Finance Law, the following investments are permitted:
   i. Obligations of the United States Government and its Agencies with a maturity of twelve years or less.
   ii. Repurchase agreements with a maturity of ninety days or less that are collateralized by obligations of the United States Government and its Agencies.
   iii. Certificates of deposit purchased from banks or trust companies located within New York State with a maturity of five years or less. To the extent a certificate of deposit is not insured by the Federal Deposit Insurance Corporation, it must be collateralized by obligations of the United States Government and its Agencies.
   iv. Commercial paper with a maturity of ninety days or less that carries the highest rating of two independent rating agencies.

VII. **DIVERSITY OF INVESTMENTS**

a) The investments of the Fund shall be diversified by financial institution, investment instrument, rate of return, and maturity pursuant to policies established by the Commissioner of Taxation and Finance.

VIII. **AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS**

a) A list of Eligible Banking Institutions and Broker-Dealers authorized by the Commissioner of Taxation and Finance is contained in Appendix A. This list is subject to change in accordance with the policies and procedures established by the Commissioner of Taxation and Finance.

IX. **COLLATERAL AND DELIVERY OF SECURITIES**

a) The Fund relies upon the policies and procedures of the Commissioner of Taxation and Finance to ensure that the market value of collateral and accrued interest, if any, shall equal or exceed the value of the secured investment and accrued interest at all times.

b) The Fund’s Controller’s Office verifies the market value of collateral on a monthly basis using the bid or closing price as quoted in The Wall Street Journal.

c) The interests of the Fund are protected by the physical delivery of purchased securities to the Commissioner of Taxation and Finance, or, in the case of book-entry transactions, on the crediting of purchased securities to the Commissioner’s Federal Reserve System account.

X. **REPORTING GUIDELINES**

a) The Fund’s Trustees are hereby deemed its Investment Committee and they shall be provided with quarterly investment reports for their review and action in accordance with Section 2925(5) of the Public Authorities Law.

b) The Fund’s annual financial statements shall contain all disclosures related to investments as required by the Governmental Accounting Standards Board (GASB).

c) The Fund shall submit an annual investment report to the Division of Budget with copies to the Office of the State Comptroller, the Senate Finance Committee, and the Assembly Ways and Means Committee as required by Section 2925(7) of the Public Authorities Law that shall include the following:
   i. The investment guidelines and any amendments to such guidelines since the last report;
   ii. An explanation of the investment guidelines and amendments;
   iii. The results of the annual independent audit;
   iv. The investment income record of the Fund; and
   v. A list of the total fees, commissions or other charges paid since the last report.
XI. **AUDIT PROCEDURES**
   a) The fund shall obtain an annual independent audit of its investments in accordance with Section 2925(3)(f) of the Public Authorities Law that shall determine whether the Fund complied with these Investment Guidelines, as well as applicable Federal, State, and other laws and regulations.
   b) The independent auditor shall submit a written audit report presenting the results of their independent audit that shall include:
      i. A description of the scope and objectives of the audit;
      ii. A statement attesting that the audit was conducted in accordance with generally accepted government auditing standards;
      iii. A description of any material weaknesses in the internal controls;
      iv. A description of all non-compliance with the Fund’s Investment Guidelines as well as applicable Federal, State, and other laws and regulations;
      v. A statement of positive assurance of compliance on the items tested; and
      vi. A statement on any other material deficiency or finding identified during the audit.
   c) The audit report shall be filed within 90 days after the close of the Fund’s fiscal year with the Office of Budget and Policy Analysis of the Office of the State Comptroller.

XII. **ANNUAL REVIEW AND REVISIONS TO GUIDELINES**
   a) These Investment Guidelines shall be reviewed annually by the Board of Trustees who may, from time to time, amend the same.

XIII. **EFFECTIVE DATE**
   a) These Guidelines are effective immediately.

March 2009
Appendix A
Department of Taxation and Finance
Approved Eligible Banking Institutions and Broker-Dealers
As of March 1, 2013

For Federal and State Government Obligations:
Banc of America Securities LLC
Deutsche Bank Securities Inc.
HSBC Securities (USA), Inc.
Key Bank
Mizuho Securities USA, Inc.
Morgan Stanley & Co.

For Certificates of Deposit:

Adirondack Bank
Adirondack Trust Co.
Ballston Spa National Bank
Bank of Akron
Bank of America, N.A.
Bank of Castile
Bank of New York
Beacon Federal Bank
Berkshire Bank
Cattaraugus County Bank
Chemung Canal Trust Co.
Citibank, N.A.
Citizens and Northern Bank
Citizens Bank, N.A.
Community Bank, N.A.
Community Capital Bank
Delaware National Bank of Delhi
Elmira Savings and Loan, F.A.
Elmira Savings Bank FSB
Evans Bank N.A.
First National Bank of Cortland
First National Bank of Jeffersonville
First National Bank of Long Island
First National Bank of Scotia
First Niagara Bank
Five Star Bank
Genesee Regional Bank
Glens Falls National Bank & Trust Co.
Herkimer County Trust Co.
HSBC Bank USA

JPMorgan Chase Bank
Key Bank N.A.
Lyons National Bank
Manufacturers & Traders Trust Co.
Mohawk Community Bank
National Bank of Stamford
NBT Bank, N.A.
Northwest Savings Bank
Oswego Bank
Partners Trust Bank
Pioneer Savings Bank
Premier National Bank
Rhinebeck Savings Bank
Rome Savings Bank
Saratoga National Bank & Trust
Savannah Bank
Savings Bank of the Finger Lakes
Signature Bank
Solvay Bank
State Bank of Long Island
Steuben Trust Co.
Suffolk County National Bank
TD Bank N.A.
The Delaware National Bank of Delhi
Tioga State Bank
Tompkins County Trust Co.
Ulster Savings Bank
Walden Savings Bank
State University Construction Fund
Updates to Investment Guidelines (March 2013)

The Fund’s modifications to investment guidelines are as follows:

1. None
Report on Investment Compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York

The Board of Trustees
State University Construction Fund:

We have examined the State University Construction Fund’s (the Fund) compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York for the year ended March 31, 2013. Management is responsible for the Fund’s compliance with those requirements. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Fund’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the Fund complied, in all material respects, with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York for the year ended March 31, 2013.

In accordance with Government Auditing Standards, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Fund's compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the subject matter. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the Fund complied with the aforementioned requirements and not for the purpose of expressing an opinion on the internal control over compliance with those requirements or other matters; accordingly, we express no such opinions. The results of our tests disclosed no matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of Fund Management, the Board of Trustees, the New York State Office of the State Comptroller, the New York State Division of the Budget, and the New York State Authority Budget Office and is not intended to be and should not be used by anyone other than those specified parties.

KPMG LLP

August 6, 2013